

“Breaking new ground”: The National Enterprise Board, Ferranti and Britain’s Pre-history of Privatization

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Abstract

Privatization is closely associated with the ideological turn to neoliberalism and regarded as a cornerstone of Britain’s “Thatcherite project”. Margaret Thatcher’s Conservative government did not undertake its major privatizations of state-owned businesses until its second term began in 1983. We argue in this paper, however, that the 1980 disposal by the National Enterprise Board of its controlling interest in the engineering and electronics company Ferranti offers significant insights into the development of privatization policy and practice, as well as the changing role of the state in British business. This disposal reflected the early caution of some of the Thatcher government’s actions but contributed to fulfilment of an electoral commitment and provided valuable privatization experience in addressing difficult financial, industrial and political issues.

Keywords: declinism; Ferranti; industrial policy; national champions; National Enterprise Board; privatization; state-owned enterprises; Thatcherism; twentieth-century Britain

Introduction

The state and business interact in many ways, whether through direct state ownership of business in some form of state capitalism or the impact of government policies in areas such as central planning, innovation, research and development, public procurement, public-private partnerships and outsourcing, competition, consumer protection and other regulation, and taxation.¹ The neoliberal model emphasizes characteristics such as private property rights, the enforcement of contracts, market liberalization, free trade, individual liberty, low taxation and the role of entrepreneurs. In this model the state is expected to limit its role to providing and maintaining the institutional framework and conditions in which neoliberalism's key elements – globalization, deregulation and financialization – can flourish.²

Yet the state-business relationship is never permanently settled, adjusting to shifting economic and political circumstances and ideological perspectives.³ Privatization, or “the transfer of the ownership and control of enterprises from the State sector to the private sector”, is one of the most controversial and far-reaching issues in political economy in the last forty years, generating a huge and wide-ranging literature.⁴ It is central to the rise of neoliberalism as one of the defining policies in the “ideological turn” and a cornerstone of Britain's “Thatcherite project”, which pioneered the privatization of state-owned enterprises (SOEs) to provide a model for the

¹ The vast literature on this subject includes, for example, the contributions to Coen, Grant and Wilson, *Oxford Handbook*; Hannah, “A Failed Experiment”; Kipping, “Business-Government Relations”; Lie, “Context and Contingency”; Middleton, *Government Versus the Market*; Millward: “State Enterprise in Britain”, “Business and the State” and “Business Institutions and the State”; Parker and Saal, *International Handbook*; and Shleifer, “State versus Private Ownership”.

² Harvey, *Brief History*, 64–66.

³ As, for example, the alternative visions of industrial strategy in the Conservative and Labour parties' 2017 UK election manifestos illustrate (Conservative Party, *Forward Together*; Labour Party, *For the Many Not the Few*).

⁴ Quote from Lawson, *View from No. 11*, 199. We acknowledge that a far wider definition is possible, as, for example, Harvey, *Brief History*, 160.

implementation of “Chicago School” free-market economic orthodoxy later dubbed “the Washington consensus”.⁵

Britain’s privatization program began slowly and cautiously after the May 1979 Conservative election victory, reflecting what some authors regard as a lack of coherence.⁶ We suggest this is only a partial explanation. While an intellectual and political case for privatization had been made, the practicalities, tensions and contradictions inherent in policy implementation had not been resolved. No template existed, with little prior history of privatization in Britain - by the late 1970s, no politicians in government or senior public officials had direct experience of the only previous privatization, the steel industry in the early-1950s.⁷ The ideological underpinnings therefore had to be tempered by practical considerations such as developing expertise within the machinery of government, securing the co-operation of managements and employees and wider political support, overcoming legislative obstacles and uncertainty about the appetite of financial markets for public sector assets, and addressing concerns over issues such as competition, foreign ownership and national security.⁸

Many of the political debates and much of the academic literature on the relationship between the state and business in Britain involve arguments around “declinism”. These suggest variously that there was too much, too little, or the wrong kind of, state involvement in business. The nature of these arguments has varied greatly depending on the period in which they have been made, the identity of their advocates, and the

⁵ Harvey, *Brief History*.

⁶ For example, Kay and Thompson, “In Search of a Rationale”; Veljanovski, *Selling the State*, 7–8; Vickers and Yarrow, “Economic Perspectives”; Williamson, *Conservative Economic Policymaking*.

⁷ Burk, *First Privatisation*. We ignore here the then-Labour government’s 1978 sale of a minority holding in the oil company BP. This was essentially a one-off sale for financial expediency and did not involve the controversies of the Thatcher government’s privatizations.

⁸ Parker, *Formative Years*, 161–164.

chosen measures of decline.⁹ While these arguments provide a backdrop for this paper, we neither seek to add to this literature, nor pronounce judgement on the success or otherwise of privatization as a policy. Similarly, we do not offer a wider assessment of Thatcherism. Rather, we argue that privatization should be viewed from an eclectic perspective; frameworks such as neoliberalism, “declinism” and corporatism provide insights, but taken separately none offers a coherent view of how privatization actually developed in Britain.¹⁰

Literature on privatization in Britain has concentrated on the sales of the large state-owned corporations, which began in 1983 during the second term of Thatcher’s Conservative government. This is understandable from economic and political standpoints as these disposals realized the bulk of privatization proceeds and aroused controversy over issues such as competition, sale prices, the impact of restructuring, and the spread of ownership. However, this focus underplays an important part of the history of the neoliberal turn in the relationship between the state and business in Britain, those privatizations which took place during the first term of Thatcher’s premiership. This paper uses one of these to show how the political commitment to privatization was translated into reality.

Disposals by the state holding company, the National Enterprise Board (NEB), other than its largest holdings in British Leyland (BL) and Rolls-Royce, have received relatively little attention. We argue that the NEB’s 1980 sale of its controlling interest in the engineering and electronics company Ferranti offers significant insights into how privatization was translated from an ideological stance and policy commitment into practice. Although the structure and mechanics of this disposal differed from those in most of the later and larger privatizations, the case came before Thatcher’s first government had accumulated significant privatization experience. Ferranti’s

⁹ Tomlinson, “Thrice Denied”, comprehensively reviews and critiques this literature. Also see: Tomlinson, “Inventing ‘Decline’”; *Politics of Decline*. See Edgerton, *Rise and Fall of the British Nation*, for a recent contribution to this literature.

¹⁰ We therefore share the view of authors such as Williamson (*Conservative Economic Policymaking*) that a more nuanced understanding of Thatcherism and economic policy needs to be developed.

passage from family control to state control in the mid-1970s and its later privatization demonstrate the state's changing role in British business, illustrating the reality of returning a single enterprise to the private sector. Ideological factors played a part, but this privatization was shaped by the government's interaction with a range of stakeholders, including company management, employees and their trade union representatives, the "Scottish lobby" (the company had extensive interests in Scotland), potential acquirers, and Ferranti's most important customer, the Ministry of Defence (MoD). This process forced the government to reconcile its neoliberal agenda with other priorities such as national security, and the need to maintain employment and innovative technical capacity.

The involvement of some of Britain's most controversial post-World War Two politicians adds a strong ideological dimension. Labour's Tony Benn, to some a visionary policymaker and modernizer and to others a dangerous socialist, was the architect of the NEB, "... a body which Tories regarded as the quintessence of corporatist folly", according to one of Thatcher's biographers.¹¹ For Thatcher and Sir Keith Joseph, a key lieutenant who shared her political and intellectual outlook, the NEB's control of Ferranti was a clear example of the kind of economic interventionism which affronted their principles – Ferranti's strong recovery after flirtation with collapse removed any reason for continued state involvement.

We base our analysis on secondary literature and a range of archival materials opened or deposited in recent years in Britain's National Archives, principally Prime Ministerial records, and those of the Cabinet's key privatization committee, the Department of Industry (DoI), and the MoD.¹² We begin by reviewing the attitudes of Thatcher and her government to state ownership of business. We then provide a brief history of the NEB, followed by a discussion of how Ferranti fell under its control. In the following section we address the disposal of the NEB's stake in Ferranti. Finally, we relate the Ferranti case to the policy and practice of privatization more widely and draw some conclusions.

¹¹ Young, *One of Us*, 363.

¹² While the NEB's own records have not entered the National Archives and presumably do not survive, the extant records allow us to construct a clear account.

Thatcher, the Conservatives and Privatization

In 1979, a range of major British industries and other businesses were in state ownership, mostly through nationalizations during the 1945-51 Labour government.¹³ This range was broader than in some other Western European countries, where state ownership was limited to sectors such as posts, telecommunications, transportation and energy utilities.¹⁴ Although Hannah described state ownership as a “failed experiment”, Tomlinson contested this view as simplistic, seeing a variety of motives for state ownership consistent with Britain’s postwar political settlement: the opportunity to enhance productivity, human relations, and egalitarianism.¹⁵ The postwar Keynesian consensus in British politics was breaking down by the 1970s, under the pressures of oil crises, the end of the Bretton Woods fixed exchange rate arrangements, deindustrialization, popular discontent, labor militancy, and skepticism towards business. Precision in dating this breakdown’s timing is difficult, but Conservative defeat in the February 1974 election was arguably key. The Conservative Party’s neoliberal fringe had long interacted with like-minded businessmen and academics, often through think-tanks, and these connections intensified during the opposition years from 1974 to 1979, particularly after Thatcher’s election as party leader in 1975.¹⁶ The Labour Left, frustrated by their

¹³ See, for example, Millward and Singleton, *Political Economy of Nationalisation*.

¹⁴ See, for example, Millward, “State Enterprise in Britain in the Twentieth Century”; Veljanovski, *Selling the State*, 50.

¹⁵ Hannah, “A Failed Experiment”; Tomlinson, “A ‘Failed Experiment’?”.

¹⁶ See, for example, Green, *Ideologies of Conservatism*; Rollings, “Cracks in the Post-War Keynesian Settlement”. Some historians argue that think-tanks such as the Institute of Economic Affairs and Centre for Policy Studies were important sources of radical ideas (Cockett, *Thinking the Unthinkable*; Jackson, “Currents of Neo-Liberalism”; James, “The Idea Brokers”; Stevens, “Evolution of Privatisation”). Others see greater continuity in Conservative policy-making and view think-tanks as a reflection of, rather than catalyst for, the spread of neoliberal ideas and the breakdown of the postwar consensus (Williamson, *Conservative Economic Policymaking*).

party's inability to shape the economy during 11 years of government (1964-70 and 1974-1979), were impatient for more radical policies to replace what they viewed as a failed consensus.¹⁷ Disillusionment with state planning in Britain, arguably arising in part from overreach by both major political parties, contributed to the breakdown.¹⁸

Historians generally accept that Thatcher intended to replace “the mixed economy with a private-sector market economy”.¹⁹ Her personal commitment to reducing the size of the public sector was undoubted, for her an economic, political and moral imperative, expressed before and after serving as Prime Minister. Her foreword to her party's 1979 election manifesto argued that: “The balance of society has been increasingly tilted in favour of the State at the expense of individual freedom. This election may be the last chance we have to reverse that process”.²⁰ Her memoir asserted that privatization was “one of the central means of reversing the corrosive and corrupting effects of socialism ... fundamental to improving Britain's economic performance ... at the centre of any programme of reclaiming territory for freedom”.²¹

Many of Thatcher's party colleagues shared her views, disappointed by the failure to reverse state ownership during Edward Heath's 1970-74 Conservative government.²² A 1977 policy statement advocated policies more friendly to enterprise, supported wider home ownership and “direct encouragement to schemes which place assets in the hands of a much wider section of working people”, and endorsed privatization.²³ John Moore, a Treasury minister from 1983 to 1986 heavily involved in the privatization program, subsequently articulated Conservative sentiments: “Our objective is to promote competition and inspire efficiency ... Privatisation hands back, to the people of this country, [nationalized] industries that have no place in the public sector”; privatization was a mechanism “for transforming a command economy

¹⁷ Wickham-Jones, *Economic Strategy and the Labour Party*.

¹⁸ O'Hara, *From Dreams to Disillusionment*.

¹⁹ Green, *Ideologies of Conservatism*, 216; Smith, “From Consensus to Conflict”, 64.

²⁰ Dale, *Conservative Party Manifestos*, 265.

²¹ Thatcher, *Downing Street Years*, 676.

²² Green, *Thatcher*, 90–97.

²³ Howe, Joseph, Prior, and Howell, *Right Approach*, 42–43, 47, quote from 34.

into a free one” to deliver the benefits of free markets and individual ownership.²⁴ Thatcher, however, told the *Sun* newspaper in 1978 that: “I am not going to go rushing into mass denationalization” and did not use the term “privatization” in public until July 1981.²⁵

The financial performance of SOEs added to the political arguments for privatization, with some incurring significant losses and therefore adding to public expenditure pressures. The evidence on their performance is mixed: growth in output, employment and productivity varied considerably across nationalized industries, with some performing better than wider manufacturing industry and others worse. Overall, though, profitability of the public corporations, particularly in the 1970s, was much lower than that of industrial and commercial companies, an outcome often attributed to a lack of clarity in, or inherent conflicts between, the objectives of SOEs.²⁶

The National Enterprise Board

The NEB emerged in 1975, a product of arguments about British decline and Labour’s internal battles as politicians on the left sought greater control over business

²⁴ Moore, *Why Privatised?*, 15; *Privatisation Everywhere*, 36.

²⁵ Green, *Thatcher*, 83, 98. Thatcher disliked the “ugly word” privatization and refused to use it (Lawson, *View from No. 11*, 198), although the term featured in private government discussions, for example, The National Archives (hereafter “TNA”), CAB134/4339, October 4, 1979 E(DL) (79) 6th meeting. Friedman (*From Galbraith to Economic Freedom*, 51–52) used the term earlier in arguing that ownership of all Britain’s SOEs should pass to a mutual fund in which all citizens would hold a share.

²⁶ Hannah, “A Failed Experiment”, 93–94; Middleton, *Government Versus the Market*; 610–614; Parker, *Formative Years*, 12–18; Tomlinson, *Government and the Enterprise*, 211–212, 214.

to address the perceived problem of underinvestment.²⁷ The idea of a state holding company appeared in 1969 Labour Party documents, and a 1973 party Green Paper committed “the NEB ... to be the basis for control across the economy through public ownership of 25 of the top 100 companies”, which would be nationalized to “promote investment, employment and industrial democracy” in support of a wider Alternative Economic Strategy.²⁸ The planned NEB had a broader scope than the Industrial Reorganisation Corporation (IRC), a government-sponsored and -funded body established by the Labour government in 1966 and abolished by the Conservative government in 1971. Modeled on Italy’s IRI, its purpose was to promote industrial reorganization and rationalization schemes in “the national interest”, such as the creation through merger of BL.²⁹ The IRC and the NEB updated earlier Labour thinking – the party had proposed “a National Investment Bank, to plan investment and industrial development” as early as 1934.³⁰

Labour returned to government in early 1974, but Prime Minister Harold Wilson disagreed with the Green Paper proposals, which ultimately led to an emasculated NEB and isolation of Benn, its chief political sponsor.³¹ Benn, as Secretary of State for Industry, presented diluted plans for the NEB.³² The party’s October 1974 election manifesto supported these proposals, including the objective “... to extend public ownership into profitable manufacturing industry by acquisitions, partly or wholly, of individual firms”.³³ Benn’s final proposals in February 1975 would have forced pension funds and insurance companies to channel funds to the NEB, but

²⁷ Mottershead, “Industrial Policy”; Sawyer, “Industrial Policy”; and Tomlinson, *Government and the Enterprise*, 276–307; and Artis, Cobham, and Wickham-Jones, “Social Democracy in Hard Times”.

²⁸ Wickham-Jones, *Economic Strategy and the Labour Party*, quotes from 127 and 63–64 respectively.

²⁹ Hague and Wilkinson, *IRC*; O’Hara, “What the Electorate Can be Expected to Swallow”, 511–516; Pass, “Industrial Reorganisation Corporation”.

³⁰ Thorpe, *British Labour Party*, 83.

³¹ Wickham-Jones, *Economic Strategy and the Labour Party*, 143–147.

³² *Regeneration of British Industry*.

³³ Labour Party, *Manifesto, October 1974*, 9–10.

Wilson switched him to another role and the November 1975 Industry Act created a NEB with “limited funds and autonomy”.³⁴ It still had wide-ranging aims and activities, with “... the principal objective of promoting efficiency and international competitiveness in British industry ...”, when directed by government and on its own initiative, including the provision of finance and help in restructuring industry sectors, and with “... special consideration to areas of high unemployment ...”.³⁵

Labour’s center-right stubbornly resisted Benn’s more radical proposals for several reasons, notably the electorate’s perceived antipathy to plans for nationalization and greater state intervention in the economy, given the political unpopularity of the nationalized industries which stemmed in part from their questionable performance.³⁶ At a time when the economy was struggling they also feared damage to relations with business, which bitterly opposed the plans for the expansion of state ownership and planning agreements.³⁷

The NEB’s explicit focus on manufacturing businesses contrasted with many of Britain’s other SOEs. Its initial portfolio comprised the government’s existing equity stakes in seven industrial companies, including Ferranti, which were transferred in February 1976.³⁸ By 1979, its interests extended across several sectors: aircraft

³⁴ Wickham-Jones, *Economic Strategy and the Labour Party*, 138–140, quote from 140.

³⁵ Committee to Review the Functioning of Financial Institutions, *Evidence, Vol. 1*, 23. The 2017 Labour election manifesto illustrates the recycling of political and economic ideas, promising “to establish a ‘National Investment Bank’ that will bring in private capital finance ... to support a network of regional development banks” and provide finance for small firms and long-term “R&D-intensive” investment, and support a broader industrial strategy (Labour Party, *For the Many Not the Few*, 16).

³⁶ O’Hara, “What the Electorate Can be Expected to Swallow”.

³⁷ Wickham-Jones, *Economic Strategy and the Labour Party*, 126.

³⁸ NEB, *Annual Report*, 1976, 7. Employee numbers were significant: BL with 192,000; Rolls-Royce, 62,000; International Computers Limited (ICL), 24,000; Ferranti, approximately 17,000; and Alfred Herbert, 6,700 (Kramer, *State Capital and Private Enterprise*, 194).

engines, computers, machine tools, motorcycles, cars, trucks, construction equipment, and electronics. These investments fell into three broad categories: companies in long-term or terminal decline, such as the loss-making vehicle giant BL which dominated the portfolio in financial terms, and the machine tool manufacturer Alfred Herbert; those with significant short-term problems but better long-term prospects, for example Ferranti and aero-engine and power plant manufacturer Rolls-Royce; and venture capital-style investments, notably in the computer industry, including semi-conductor manufacture.³⁹ The first two categories were not necessarily easy to distinguish ex-ante, falling under the NEB's "hospital role", or what the later Conservative Industry Minister Norman Tebbit referred to as "that lame-duck farm".⁴⁰

The concept of the "Macmillan gap", with banks and equity investors unwilling to finance small and medium-sized enterprises, new and innovative businesses, and research and development, has been recognized since the 1930s.⁴¹ Although institutions had been developed to address this problem, the NEB's venture capital role reflected the view of some, not confined to the Labour Left, that this gap remained.⁴² This critique is linked to the characterization of Britain's system of corporate governance as an "outsider" one, in which wealth-maximizing institutional shareholders dominate, and sometimes pursue or support short-termist takeovers, concerns which influenced the NEB's disposal of its Ferranti stake.⁴³

Overall, the NEB did not fulfil its intended purpose: "far from becoming the promoter of structural change in profitable areas of the economy, [it] came to focus on propping

³⁹ Campbell-Kelly and Hamilton ("From National Champions to Little Ventures") assess the NEB's information technology investments.

⁴⁰ TNA, PREM19/260, Joseph memorandum to Thatcher on "NEB: Future Role and Functions", July 6, 1979; Tebbit, *Upwardly Mobile*, 177.

⁴¹ Baker and Collins. "English Commercial Banks"; Thomas, *Finance of British Industry*, 116–121.

⁴² Coopey and Clarke, 3*i*; Scott and Newton, "Jealous Monopolists"; Toms, Wilson and Wright, "Evolution of Private Equity", 742–744.

⁴³ On "short-termism" more generally, see, for example, Kay, *Kay Review*, and Mayer, "The City and Corporate Performance".

up ... firms in financial trouble, something it had been devised explicitly not to do ... In all 95% of its funds went on lame ducks”.⁴⁴ Arguably, however, assessments of the NEB’s performance should reflect that it was never envisaged to operate in macroeconomic circumstances as difficult as those of the 1970s.⁴⁵ Its changing leadership was another factor in its performance. Its first chairman, Lord Ryder, was regarded as autocratic and unwilling to engage in debate, while the Labour government, focused on increasingly difficult macroeconomic and industrial relations issues, progressively marginalized his successor, Sir Leslie Murphy.⁴⁶

The 1979 Labour election manifesto promised to expand the NEB’s role, but made no specific commitments.⁴⁷ In contrast, the Conservatives’ manifesto committed “to reduce government intervention in industry, particularly that of the [NEB]”, and to “restrict [its] powers ... solely to the administration of the Government’s temporary shareholdings, to be sold off as circumstances permit”.⁴⁸ The NEB’s directors opposed such disposals, resigning en masse in November 1979 after the Conservative government’s decision to transfer supervision of Rolls-Royce to the DoI.⁴⁹ The NEB’s new chairman Sir Arthur Knight acknowledged its changed role, and its major inherited shareholdings were disposed of in various ways as “The Conservatives purged the NEB of what they took to be its most undesirable features”.⁵⁰ The largest holdings, Rolls-Royce and BL, were transferred to the DoI’s direct control in August 1980 and March 1981 respectively.⁵¹ In 1981, the NEB and the National Research

⁴⁴ Wickham-Jones, *Economic Strategy and the Labour Party*, 141. The NEB received £777 million, of which BL absorbed £569 million.

⁴⁵ Artis, Cobham, and Wickham-Jones, “Social Democracy in Hard Times”, 44–45, 57; O’Hara makes a similar point, arguing that price controls imposed on some SOEs undermined their financial performance (“What the Electorate Can be Expected to Swallow”, 519).

⁴⁶ “Sir Leslie Murphy: Obituary”, *Guardian*, October 10, 2007.

⁴⁷ Labour Party, *Manifesto 1979*, 10

⁴⁸ Dale, *Conservative Party Manifestos*, 267, 269.

⁴⁹ Parker, *Formative Years*, 58.

⁵⁰ NEB, *Annual Report*, 1979, 3; quote from Redwood, *Going for Broke*, 72.

⁵¹ NEB, *Annual Report*, 1980, 3.

Development Corporation (NRDC) were merged “under the flag of the British Technology Group”.⁵²

“The Ferranti spirit” and government control

Ferranti was a large and long-established British electrical engineering and defense electronics business.⁵³ In 1974 the Ferranti family held 56 percent of the equity and the founder’s grandsons, the brothers Sebastian and Basil de Ferranti, were managing director/executive chairman and deputy managing director.⁵⁴ The family resisted moves to formalize financial management structures, which they argued would inhibit the company’s durable, distinctive, but controversial, management tradition known as “the Ferranti spirit”.⁵⁵ This emphasized innovation and engineering excellence in a decentralized group structure, an environment that attracted highly-qualified engineers.⁵⁶ Harold Wilson, however, thought that “the brilliant Ferranti brothers were regarded as too theoretical and not profit-minded enough”. One might also argue that “the Ferranti spirit” reflected Alfred Chandler’s contested version of declinism, “the continuing commitment to personal capitalism in British industry”, although the family business literature is generally more nuanced and positive than Chandler on the potential benefits of family control.⁵⁷

⁵² Ibid., 1981, 3. The NRDC was formed in 1948 to commercialize publicly-funded research. The British Technology Group’s “last remnant” was sold in a management buyout in March 1992 (Parker, *Popular Capitalism*, 33). It is now listed on the London Stock Exchange as the medical technology company BTG plc with a market capitalization of £2.5 billion.

⁵³ See Wilson, *Building a Family Business; From Family Firm to Multinational; Managers, Mergers and Fraud*.

⁵⁴ Wilson, *From Family Firm to Multinational*, 380.

⁵⁵ Ibid., 1; Wilson, “Ferranti and the Accountant”; interviews with Sebastian de Ferranti.

⁵⁶ Wilson, *Building a Family Business*, xv; interview with Sebastian de Ferranti.

⁵⁷ Quotes from Wilson, *Final Term*, 136, and Chandler, *Scale and Scope*, 239. See the recent discussion in Bower, “The Whitbread Umbrella”, 877–880.

The “Ferranti spirit” was undoubtedly responsible for stimulating a wide range of innovations in multiple areas of electronic engineering, from meters to avionics and micro-electronics.⁵⁸ However, the lack of rigorous financial controls and loose management structures contributed to a severe liquidity crisis in the early 1970s. Crucially, Sebastian de Ferranti refused to take decisive action to limit the mounting losses associated with power transformers and micro-electronics, resulting in extensive calls on the company’s borrowing facilities with its main banker, National Westminster. These internal problems were exacerbated by the deep macroeconomic problems of the era, leading National Westminster to refuse to sanction increased borrowing.⁵⁹ The Bank of England provided the first hint that Ferranti would seek government support on August 14, 1974.⁶⁰ Discussions involving Ferranti, National Westminster, Peat, Marwick, Mitchell & Co. (PMM) as reporting accountants, the Treasury and the DoI continued through the remainder of 1974. The Treasury was concerned about Ferranti’s role as a major employer, but also about the lack of clarity on the government’s potential financial commitment, an issue on which PMM could offer little reassurance.⁶¹ The DoI worried about the “prestige of this company”, a major exporter, and defense contractor, with 35 percent of its 1973 sales going to the MoD.⁶² The Ferranti brothers were also tempted into preliminary discussions with GEC’s managing director Arnold Weinstock over a possible partial or full takeover, and, apparently concerned at the potential price for government support, deferred approaching the government until National Westminster exerted extreme pressure.⁶³

Benn saw the irony of the Conservative-supporting Ferranti brothers seeking a “bail-out” from the Labour government and resisted their attempts to retain control and

⁵⁸ Wilson, *From Family Firm to Multinational*, 2–32.

⁵⁹ Ibid., 30.

⁶⁰ TNA, T233/2901, G.S. [Gordon] Downey note to Mr [William] Ryrie.

⁶¹ Ibid., Ryrie note to Leo Pliatzky and Private Secretary to the Chief Secretary, September 6, 1974.

⁶² Ibid., P.W. [later Sir Peter] Carey draft paper to Secretary of State [Benn], September 5, 1974.

⁶³ Ibid., Ryrie note to Pliatzky, September 13, 1974.

secure generous personal contracts.⁶⁴ He was influenced by a September 17, 1974 visit from “a huge delegation representing Ferranti workers from all over the UK”, who wanted government support to preserve the group’s current form and avoid job losses or takeover.⁶⁵ The government took 50 percent of the voting shares and 62.5 percent of the total equity in Ferranti plus loan stock in exchange for a £15-million cash investment and an £11-million guarantee of bank borrowings.⁶⁶ The Ferranti brothers moved into non-executive roles, other non-executive directors were appointed, and the family shareholdings were diluted to just under 20 percent of the voting shares. The new managing director was an outsider, Derek Alun-Jones, formerly at the oil company Burmah.⁶⁷

Ferranti’s turnaround involved consolidation of its financial position, debt reduction and asset sales, restructuring of the business, introduction of stronger accounting and financial controls, retention of “the Ferranti spirit”, and an emphasis on expanding its US business, all with the ultimate aim of escape from government control.⁶⁸ The NEB’s first annual report flagged a rapid recovery.⁶⁹ In 1977, the company raised an £18-million syndicated loan to repay the loan stock and reduce its debt to National Westminster, and the 1979 £7-million sale of its loss-making Canadian subsidiary further improved its finances.⁷⁰

State control saved Ferranti from financial distress and protected it from takeover or break-up. Whether this would have occurred under a Conservative government is unclear, and opinions vary according to political persuasion as to whether Ferranti would have survived without government help.⁷¹ Although the conservative

⁶⁴ Benn, *Against the Tide*, 225, 358, 374.

⁶⁵ *Ibid.*, 226.

⁶⁶ Wilson, *From Family Firm to Multinational*, 425.

⁶⁷ *Ibid.*, 45–57.

⁶⁸ *Ibid.*, 335–365.

⁶⁹ NEB, *Annual Report*, 1976, 14.

⁷⁰ *Ibid.*, 1977, 15; Wilson, *From Family Firm to Multinational*, 336, 347–348.

⁷¹ Redwood, *Going for Broke*, 142; Wilson, *Final Term*, 150; Wilson, *From Family Firm to Multinational*, 351–353.

newspaper the *Daily Mail* recognized Ferranti as the “NEB’s biggest success story”, the roles of the NEB and the government in the company’s recovery are also debated.⁷² The importance of management change was widely acknowledged, but Alun-Jones had been appointed before the transfer of the government’s stake to the NEB, and some argued that the NEB contributed little.⁷³ Ferranti and Fairey Engineering, another NEB investment, arguably benefited from government custom as defense suppliers, but the NEB was supportive of Ferranti’s new leadership, trusting Alun-Jones and his team to effect a recovery.⁷⁴

Disposal of the NEB’s interest in Ferranti

Under the terms of the agreement for government assistance, the NEB reduced its shareholding in Ferranti to 50 percent when the company’s recovery allowed it to be floated on the London Stock Exchange in September 1978. This sale realized a £960,000 profit and the NEB’s remaining holding at December 31, 1978 was valued at £38.9 million against a cost of £6.9 million.⁷⁵ The NEB began to dispose of its legacy holdings after the 1979 Conservative election victory. It sold its minority stake in ICL for £37 million for a profit of £24 million and received an offer of £19.5 million for its holding in Fairey.⁷⁶ Ferranti, “the jewel of the NEB’s rather tarnished crown”, was next: “... the NEB and the company are considering ways in which the future of Ferranti can best be secured. In reaching any decision, the NEB will take account of the interests of the company and the taxpayer”.⁷⁷

⁷² *Daily Mail*, February 7, 1978, quoted by Kramer, *State Capital and Private Enterprise*, 182.

⁷³ Kramer, *State Capital and Private Enterprise*; Grylls and Redwood, *Case for Euthanasia*, 31–34.

⁷⁴ Hannah, “A Failed Experiment”, 101; Wilson, *From Family Firm to Multinational*, 435–458.

⁷⁵ NEB, *Annual Report*, 1978, 20.

⁷⁶ *Ibid.*, 1979, 4.

⁷⁷ *The Times*, “Ferranti Fights for its Independence”, June 18, 1980; NEB, *Annual Report*, 1979, 12.

Disposal options were numerous: public offering of the shares; sale to institutional investors; management buy-out; sale to a single bidder, most likely a British or international industrial rival; break-up of the Ferranti group, whose spread of businesses effectively made it a mini-conglomerate; or some combination of these approaches.⁷⁸ In August 1980, all but two percent of the NEB's remaining 50 percent stake in Ferranti was widely distributed in "a placing with more than one hundred institutional shareholders", accompanied by an issue of new shares which raised nearly £21 million and left Ferranti virtually debt-free.⁷⁹ The NEB's proceeds amounted to £54 million, although "the Government's policy that the shares of Ferranti should be placed with restrictions on resale resulted in the disposal being on less favourable terms than could have been obtained on the open market".⁸⁰ The cash inflow benefited the public finances, although the loss on the liquidation of Alfred Herbert, another inherited holding, almost exactly offset the NEB's profit on the disposal (£47.27 million).⁸¹

The Ministerial Committee on Economic Strategy: Sub-Committee on Disposal of Public Sector Assets (hereafter "the Sub-Committee") was central to the Ferranti disposal. It first met on June 5, 1979, just over one month after the May 3, 1979 election. A memorandum from Nigel Lawson, Financial Secretary to the Treasury, documented his discussions with the NEB over the disposal of its stakes in Ferranti and ICL.⁸² In another memorandum, Lawson noted the "need to treat each of the NEB sales on its merits", and that offers to the public "may not lead to the best price or offer the best solution in industrial terms or for introducing better commercial

⁷⁸ Other early privatizations reflect this range of disposal options. For example the National Freight Corporation was sold to management and employees in February 1982 and International Aeradio, a subsidiary of British Airways, was sold to the British company Standard Telephone and Cables in March 1983.

⁷⁹ Ferranti, *Annual Report*, 1981, 7.

⁸⁰ NEB, *Annual Report*, 1980, 3.

⁸¹ *Ibid.*, 29.

⁸² TNA, CAB 134/4339, memorandum E(DL) (79) 2, June 4, 1979, "Disposal of Public Sector Trading Assets", Appendix B.

discipline into management. ... In some cases we could do better to agree to a sale to another company; for example, I understand that a good deal of interest has already been shown by other companies in Ferranti”.⁸³ The Sub-Committee’s second meeting discussed this memorandum and possible measures to encourage employee participation in share sales such as the establishment of trusts to lend money to employees to help them participate, and the need to give preference to “small applicants”.⁸⁴

The disposal process culminated in mid-1980 after a year during which disposal options were explored, potential bidders and the attitudes of interested government departments identified, and representations made by Ferranti, potential bidders, and others. Prime responsibility for dealing with the NEB lay with Sir Keith Joseph, Secretary of State for Industry and his junior Industry Minister, Adam Butler.⁸⁵ Scottish Labour House of Commons member Gavin Strang wrote to Joseph only four days after the election, and Ferranti directors were in touch soon after.⁸⁶ Alun-Jones and Sebastian de Ferranti met Butler, requesting an outcome which would secure the company’s independence.⁸⁷ Alun-Jones suggested a gradual sale of the NEB’s stake to reduce the risk of takeover, possibly in two tranches, a solution also advocated by a stockbroker specializing in the engineering and electronics sectors.⁸⁸

⁸³ Ibid., memorandum E(DL) (79) 3, June 18, 1979, “Disposal of BP Shares and NEB Holdings”.

⁸⁴ Ibid., minutes, June 20, 1979.

⁸⁵ Joseph was interested in SOEs from at least 1956 when he joined the Conservative Party’s newly-formed Policy Committee on the Nationalised Industries (Green, *Thatcher*, 86).

⁸⁶ TNA, FV94/217, letters to Joseph from: Strang, May 7, 1979; Ferranti director, John Pickin, May 15, 1979; Sebastian de Ferranti, May 24, 1979.

⁸⁷ Ibid., note of meeting, July 23, 1979.

⁸⁸ Ibid., note of meeting between Butler and Angus Irvine of Savory Milln, January 25, 1980.

In June 1980 Butler made the case for sale to the highest bidder, but acknowledged that: “Whatever decision is made the Government is likely to be criticised!”⁸⁹ His position aligned with Lawson’s, and reflected advice from the merchant bank advising the government and the NEB, Rothschilds, who favored sale to “a larger industrial group”. This solution alarmed Ferranti’s board, which unanimously preferred an option offering independence, although Alun-Jones feared that wide dispersal of the NEB’s stake would further empower the Ferranti brothers who were reasserting themselves.⁹⁰

Several potential bidders for all or part of the NEB’s stake had identified themselves: the British companies BICC, GEC, Hawker Siddeley, Northern Engineering Industries, Racal and Vickers; the British subsidiary of the US Sperry Corporation; and the French company Matra.⁹¹ GEC was persistent but recognized that its market position and significance as a supplier to the MoD complicated its potential acquisition of part or all of Ferranti. Weinstock lamented the loss of the opportunity to create a “national champion” in electronics, comparing the British government’s position unfavorably to its counterparts in West Germany, France and elsewhere.⁹² His deputy suggested that a minority GEC stake in Ferranti and exchange of directors

⁸⁹ TNA, CAB 134/4339, memorandum E(DL) (80) 8, June 13, 1980, “Ferranti: Disposal of NEB Shareholding”.

⁹⁰ Ferranti board minute 10763, May 29, 1980; TNA, FV94/218, note by P.G. Moulson, Private Secretary to Carey, on a series of ad-hoc meetings and telephone calls involving Carey, the Ferranti brothers and Alun-Jones on June 2, 1980. Knight advised Carey that some potential institutional investors wanted Sebastian de Ferranti to step down (FV94/219, note by Moulson, June 17, 1980).

⁹¹ TNA, FV94/217, memorandum from A.J. Lippitt, Deputy Secretary, DoI to A.H. Lovell, Treasury, February 15, 1980; FV94/218, letter from Sir Alan Dawtry, Sperry Limited, to Knight, May 29, 1980. Further potential British bidders had withdrawn or not responded: Plessey, Smiths Industries, Thomas Tilling and Thorn (FV94/219, note of meeting between Butler and Ian Halliday, NEB Chief Executive, June 17, 1980).

⁹² TNA, FV94/217, letter from Weinstock to Joseph, February 18, 1980; note by I.K.C. Ellison, Joseph’s Private Secretary, of Weinstock’s visit to Joseph on February 19, 1980.

would be more acceptable than acquisition of the NEB's shareholding or a full bid.⁹³ Racal, with less overlap with Ferranti and so more likely to retain its Scottish plants, appears to have been the government's and Ferranti's favored British bidder, but it did not pursue its interest.⁹⁴ The MoD opposed sale to any foreign company for several reasons: "... in a number of areas ... there is no adequate alternative capability in the UK"; potential limits to access to technologies arising from foreign ownership; and Ferranti's value as "... a source of innovation in ideas ... in areas of technology yet to be explored ...".⁹⁵ The MoD, however, viewed the German company Siemens positively, and the DoI showed particular antipathy to potential French buyers due to "the obstructive attitude of the French authorities to British investment in France".⁹⁶

Thatcher initially supported the Butler-Lawson approach, telling the House of Commons with characteristic directness: "The NEB and the previous Labour Government assisted Ferranti during a very difficult period. Ferranti no longer needs that assistance. The NEB wishes to sell the shares and to obtain the best possible price. It must be free to do that".⁹⁷ Lobbying against this position was direct and indirect, in public and private. The *Times* newspaper published letters from Ferranti directors and senior managers pleading for a solution which secured its

⁹³ TNA, FV94/219, letter from Kenneth Bond, GEC, to Halliday, June 5, 1980, follow-up telephone call from Weinstock to Carey, June 17, 1980.

⁹⁴ TNA, FV94/217, letter from Kenneth Macdonald, MoD, to Jack Leeming, DoI, August 1, 1979; FV94/219, brief from J.A. Battersby to Butler, June 23, 1980; note of meeting between Carey and Racal's Ernest Harrison and Sir Robert Clark, June 23, 1980.

⁹⁵ TNA, FV94/217, letter from Macdonald to Leeming, August 1, 1979; FV94/218, letter from G.H. Green, Deputy Under Secretary of State, Procurement Executive, MoD, to A.G. Manzie, DoI, June 6, 1980.

⁹⁶ TNA, FV94/217, letter from Green to Lippitt, February 21, 1980; FV94/218, Moulson note, June 3, 1980.

⁹⁷ *Hansard House of Commons*, June 10, 1980, col. 300.

independence.⁹⁸ Ferranti's directors met Butler to argue their case.⁹⁹ Basil de Ferranti went direct to John Hoskyns, head of the Downing Street Policy Unit from 1979 to 1982, to reinforce their arguments.¹⁰⁰ He also wrote to Thatcher, who assured him that a decision would be taken only "after the most careful consideration".¹⁰¹ Director Donald McCallum wrote to Joseph, with copies to several Cabinet ministers, to advocate "wide placing of the NEB's shareholding".¹⁰² Alun-Jones asked James Prior, Secretary of State for Employment, to support Ferranti's independence and highlighted the role of employee co-operation in its turnaround.¹⁰³ Thatcher politely declined to receive a delegation led by the Mayor of Oldham, a town with many Ferranti employees.¹⁰⁴

Opposition to the disposal from Labour members of parliament, who wanted the NEB to retain its stake, was expected, but thirteen "doubtful" Conservatives were also identified.¹⁰⁵ During a House of Commons debate on Ferranti several of these urged caution, and various Conservative and Labour members referred to letters received from Alun-Jones and constituents who were employees, as well as their meetings with

⁹⁸ *The Times*, letter from Albert Dodd and Pickin, "NEB's Holding in Ferranti: A Question of Disposal", May 29, 1980; letter from Sebastian de Ferranti, "Disposal of State's Ferranti Holding", June 18, 1980.

⁹⁹ TNA, FV94/218, meeting note, June 10, 1980; CAB 134/4448, memorandum E(DL) (80) 8, June 13, 1980, "Ferranti: Disposal of NEB Shareholding"; *The Times*, "Ferranti Chiefs Press for Sale Intervention", June 11, 1980, 21.

¹⁰⁰ TNA, PREM19/260, Hoskyns letter to Joseph, May 30, 1980; Parker, *Formative Years*, 162. Hoskyns had been a successful businessman without formal party political affiliation but was committed to a market-oriented economic approach (Cockett, *Thinking the Unthinkable*, 259–260). He became a Ferranti non-executive director in 1986.

¹⁰¹ TNA, PREM19/260, Thatcher letter to Basil de Ferranti, June 24, 1980.

¹⁰² TNA, FV94/218, letter, June 14, 1980.

¹⁰³ TNA, FV94/219, letter, June 16, 1980.

¹⁰⁴ TNA, PREM19/260, letter from Councillor J.C. Campbell, June 6, 1980.

¹⁰⁵ *Ibid.*, an undated list "provided by the Chief Whip" names these Conservatives.

constituents and union representatives.¹⁰⁶ The debate ended with a vote in which a large majority supported the sale “as soon as practicable, having regard to the interests of the company, the taxpayer and other such considerations as the Government may draw to the [NEB’s] attention”.¹⁰⁷ Joseph and Butler met separate delegations of Conservative and Labour members before this debate and union representatives afterwards, and NEB chairman Knight also met union representatives and Labour members after the debate.¹⁰⁸

Scottish Secretary and Cabinet minister George Younger noted that Ferranti had 7,300 employees in Scotland, many in “high quality” jobs, and that Scotland accounted for 30, 40 and 50 percent of the group’s assets, employment and profits, respectively. He argued against selling to the highest bidder: “It is no part of our industrial policy to further the extinction of independent companies with records of technological success”, and that such a disposal “would run counter ... to our defence, industrial, competition and regional policies”, provoke unnecessary conflict with the Ferranti management and workforce, and further alienate Scottish business and public opinion, already bruised by deindustrialization and recession.¹⁰⁹ The best option would be “to look for the best price on a widely dispersed placing of the [NEB’s] shareholding, on the basis of a solution which takes proper account of the Scottish interest in a company so important to the economy of Scotland”.¹¹⁰ He also claimed that Scottish financial institutions had indicated to the NEB their willingness to support such a solution.

The political pressure in Scotland was evidenced in several ways. In an election for the vacant Glasgow Central seat on June 26, 1980 the Conservative share of the vote

¹⁰⁶ *Hansard House of Commons*, June 18, 1980, cols. 1589-1648.

¹⁰⁷ *Ibid.*, col. 1648.

¹⁰⁸ TNA, FV94/219, minutes of meetings involving Joseph and Butler on June 17, 18 and 24, 1980, and Knight on June 24 and 26, 1980. For voluminous correspondence between numerous members of parliament and Butler, Joseph and Thatcher see FV94/218 and /219.

¹⁰⁹ TNA, PREM19/260, Younger letter to Joseph, June 12, 1980.

¹¹⁰ *Ibid.*

fell to 8.8 percent from 16.4 percent at the 1979 election.¹¹¹ An open letter to Thatcher in a popular Scottish newspaper on the day before this election attacked a possible sale to the highest bidder.¹¹² Michael Ancram, Conservative House of Commons member for Edinburgh South, warned that “the political ramifications would be great in Scotland” if the disposal resulted in job losses in Ferranti’s Scottish business.¹¹³ Scottish church leaders feared “the gradual extinction of the flame of local enterprise and leadership”.¹¹⁴ Scottish sentiments were driven by concern that GEC would gain control of Ferranti and rationalize its Scottish business.¹¹⁵

Joseph professed sympathy for the position of Ferranti and its employees, but continued to favor seeking the highest bid. He suggested that wide dispersal, necessarily at a discount to the market price, and at an even greater discount to what a single bidder would pay, would reduce the sale proceeds but fail to guarantee independence.¹¹⁶ However, in the House of Commons debate he limited potential bidders to domestic ones, confirming that “the Government are not prepared to contemplate [Ferranti] passing into foreign ownership”.¹¹⁷

¹¹¹ Cook and Ramsden, *By-elections in British Politics*, 295.

¹¹² *Daily Express*, “Dear Maggie: Scots See Ferranti as a Test of Your Intentions”, Scottish edition, June 25, 1980.

¹¹³ Churchill Archives Centre, Cambridge, THCR 2/6/2/93 pt 2 (44), “Memorandum on Political Implications of Ferranti Decision”, June 18, 1980, available at <https://www.margarethatcher.org/document/119339>.

¹¹⁴ *The Times*, letter from W.B. Johnston and Iain O. MacDonald, “Disposal of State’s Ferranti Holding”, June 23, 1980. See also TNA, FV94/218 for note on the “The Future of Ferranti Ltd” by the Church of Scotland Home Board’s “Society, Religion & Technology Project”.

¹¹⁵ Rival takeover bids by HSBC and Standard Chartered for the Royal Bank of Scotland in 1981 also aroused Scottish opposition (Roberts and Kynaston, *The Lion Wakes*, 69, 73–76, 79–80).

¹¹⁶ TNA, PREM19/260, Joseph note to Thatcher, June 16, 1980.

¹¹⁷ *Hansard House of Commons*, June 18, 1980, col. 1597.

Other ministers pressed Joseph. John Nott, Secretary of State for Trade, indicated his unwillingness to “destroy the credibility of our competition policy” by over-ruling any recommendation to refer a bid for Ferranti to the competition authorities. He noted that any such reference would raise considerable uncertainty and prolong the disposal process.¹¹⁸ Prior asked to be consulted before a final decision.¹¹⁹ Some ministers suggested higher procurement costs for the MoD, Ferranti’s largest customer, could offset the financial gain from sale to the highest bidder.¹²⁰

Joseph chaired the Sub-Committee’s meeting in which “a small but clear majority” supported Younger’s proposal for wide dispersal of the NEB stake, subject to suitable conditions preventing onward sales to a single buyer such as GEC.¹²¹ The meeting noted that employee involvement would reduce the shares available to a potential bidder, and considered the desirability but unlikelihood of the involvement of major British banks as long-term shareholders.¹²² Thatcher accepted the Sub-Committee’s recommendation, which Joseph reported could yield proceeds at least £10-20 million lower than sale to the highest bidder.¹²³

¹¹⁸ TNA, PREM19/260, Nott letter to Joseph, June 23, 1980. London Stock Exchange rules obliged an investor who acquired at least 30 percent of the shares of a listed company to bid for the remaining shares.

¹¹⁹ Ibid., Prior letter to Joseph, June 24, 1980.

¹²⁰ Ibid., Joseph note to Thatcher on disposal options, June 25, 1980.

¹²¹ Ibid.

¹²² TNA, CAB 134/4448, E(DL) (80) third meeting, minutes, June 24, 1980. We found no evidence that the government encouraged the major commercial banks to take equity stakes in Ferranti, nor is there any tradition of British banks taking such stakes in industrial companies (Baker and Collins, “English Commercial Banks”; Thomas, *Finance of British Industry*).

¹²³ TNA, PREM19/260, Joseph note to Thatcher, June 25, 1980. Redwood (*Going for Broke*, 98) states that a full Cabinet meeting confirmed the decision on June 26, 1980, but the meeting minutes do not refer to Ferranti (CAB 126/68, Cabinet minutes Thursday June 26, 1980 CC(80) 25th). The potential shortfall suggested by Joseph is consistent with advice given by a leading merchant banker (FV94/219, note by Jonathan Hudson, Private Secretary to Butler, of discussion between Butler and Mr.

On July 1, 1980 Joseph announced to the House of Commons that the NEB stake would be placed with institutional shareholders. There would be a two-year lock-in to prevent disposals, with acquirers barred from voting on control issues during this period, and four percent of the NEB's stake (i.e. two percent of the total equity) would be retained for an employee trust.¹²⁴ The announcement was timed to eliminate any uncertainty ahead of the Queen's visit to Ferranti's Edinburgh factories on the following day. The outcome was a total victory for the Ferranti board's aggressive lobbying for such a solution across political and other networks.

The placing operation was successful but proved more difficult than expected, as some institutional investors had hoped for a substantial discount in exchange for the two-year lock-in period and voting restrictions.¹²⁵ The NEB's stake was placed at £5.30 per share, an 11 percent discount to the £5.97 market price at which trading had been suspended on June 30, 1980 ahead of Joseph's announcement. Trading reopened on July 2, 1980, with a closing price of £5.72, an eight percent premium to the placement price and a four percent discount to the pre-announcement price.

Discussion and conclusions

In this section we reflect on the disposal of the NEB's stake in Ferranti and its wider relevance to privatization. The disposal was very deliberately intended to reconcile

Henderson of Kleinwort Benson, also a Deputy Chairman of the Stock Exchange, June 17, 1980).

¹²⁴ *Hansard House of Commons*, July 1, 1980, cols. 1305–1306.

¹²⁵ *The Times*, “Buyers Slow to Take Up Ferranti Shares Offer”, July 2, 1980, 19; “Institutions Rally Round to Take Up Ferranti Shares”, July 3, 1980, 19. *Economist*, “The Scots Get Their Way”, July 5, 1980, 86–87. Scottish institutions had indicated to the NEB that they sought a 20 to 30 percent discount to the market price in exchange for a three-year lock-in, and Rothschilds and the stockbrokers Cazenove had advised this would be 10 to 15 percent for a two-year lock-in (TNA, FV94/219, note by Hudson, June 27, 1980).

the interests of various stakeholder groups. Sale to a single bidder, domestic or foreign, could have realized significantly higher proceeds, but at the price of antagonizing management and employees, and with the potential for higher procurement costs and serious political damage. The placing terms realized significant proceeds and limited opportunities for subsequent takeover. The disposal secured the company's independence from government and lifted the immediate threat to thousands of jobs, many in politically-sensitive areas such as Greater Manchester and Scotland with marginal parliamentary seats at risk. The government could claim that it had responded to concerns over the sale, had not sold the shares "too cheaply", and had preserved competition in defense procurement. The shadow of GEC, which heavily influenced the behavior of Ferranti, the government and the NEB, was dodged for the moment. However, the fragmentation of the NEB's stake left no significant large shareholders who would have been in a position to monitor Ferranti's corporate governance. This contributed to the outcome that so many had sought to avoid when GEC bought most of Ferranti's activities after its disastrous 1987 merger with the US company International Signal and Control.¹²⁶

The literature does not treat Ferranti as a mainstream privatization like those of the major state corporations such as British Aerospace, British Airways, British Steel, British Telecom, and the utility companies. Parker's two-volume official history of privatization, written with full access to all government documents, has little to say on the NEB or the disposals of its interests other than BL and Rolls-Royce; Ferranti does not even have an index entry.¹²⁷ We argue, nevertheless, that the case provided important early experience in the Thatcherite privatization program.

After leaving office Thatcher commented in her memoirs that:

... in some cases it was a choice between having the ideal circumstances for privatization, which might take years to achieve, and going for a sale within a particular politically determined timescale, [and] the second was a preferable

¹²⁶ Billings, Tilba and Wilson, "To Invite Disappointment or Worse".

¹²⁷ Parker, *Formative Years*. Similarly, Hoskyns' memoir refers neither to Ferranti nor the NEB (Hoskyns, *Just in Time*).

option [as] state-owned businesses can never function as proper businesses ... Our privatization programme was constantly breaking new ground. Each industry posed its own special problems. Each flotation or trade sale raised separate issues.¹²⁸

This statement can be interpreted as a principled determination to pursue privatization with close attention to the particular circumstances of individual companies, or an ex-post rationalization of the ad-hoc implementation of a policy lacking a fixed plan. Her comments are consistent with both the views on the coherence of privatization policy discussed earlier, and the pragmatic approach adopted in the Ferranti case, which reflected her government's early caution in some areas. This contrasts with notable radicalism in other aspects of Conservative policy, for example, reform of trade union legislation, monetarist macroeconomic policy, and the abolition of foreign exchange controls.¹²⁹

There were several reasons for this early cautiousness, which helped to establish the privatization program's political acceptability and credibility. First was the question of priorities. Parker argues that the first two years of the 1979-83 Conservative government were characterized by a struggle to find saleable assets to reduce borrowing as the economy slid into deep recession.¹³⁰ From within government Hoskyns viewed the initial priority as stabilization of its finances and downplayed privatization's early significance.¹³¹ Lawson, however, claims that "privatization was a central plank of our policy right from the start", but that "little detailed work had been done on the subject in Opposition".¹³² A second reason was that privatization's

¹²⁸ Thatcher, *Downing Street Years*, 677, 678.

¹²⁹ Bellringer and Michie, "Big Bang"; Helm, "Economic Borders of the State"; Mayer, "Big Bang".

¹³⁰ Parker, *Formative Years*, 52–77; see also Stevens, "Evolution of Privatisation", 55–56.

¹³¹ Hoskyns, *Just in Time*, 287; Kandiah, "No. 10 Policy Unit", 121–123.

¹³² Lawson, *View from No. 11*, 199. Lawson's comments are plausible, although they could be classed as "memoir hindsight", a problem against which Stevens ("Evolution of Privatisation") cautions several times. The 1979 Conservative manifesto made

public appeal was unclear, and the limited 1979 manifesto promises reflected “Margaret’s understandable fear of frightening the floating voter”, with uncertainty as to whether voter antipathy towards the nationalized industries would translate into an appetite for privatization.¹³³ Thatcher’s fear was rational as “public opinion was invariably hostile” to every major privatization, although once executed “the private sector status of the industry concerned became accepted as a fact of life”.¹³⁴ Surveys on voter attitudes, however, showed that support for denationalization in 1979 had almost doubled to 40 per cent from the previous October 1974 election.¹³⁵ Finally, the government’s own banking advisers, other City bankers, the Bank of England and industrialists expressed persistent doubts about the ability of the financial markets to absorb privatization sales.¹³⁶

The Ferranti disposal, with the company’s shares already listed on the stock exchange, showed that the existence of a market price could be used to measure disposal options and investor appetite. Some later privatizations adopted the model of selling shares in tranches, allowing for the establishment of a market (see Table 1). This should have secured greater proceeds than one-stage disposals, although a recurring criticism was that particular companies were privatized “too cheaply” for political reasons and to secure success of the sales.¹³⁷

explicit reference only to sales of the National Freight Corporation, and the shipbuilding and aerospace industries which were nationalized during the 1974-1979 Labour government (Dale, *Conservative Party Manifestos*, 272). Thatcher’s reaction to the difficulties of implementing monetary targeting suggests that lack of detailed preparatory work in a key policy area was not confined to privatization (Needham, “Britain’s Money Supply Experiment”).

¹³³ Quotes from Lawson, *View from No. 11*, 199.

¹³⁴ *Ibid.*, 201.

¹³⁵ Stevens, “Evolution of Privatisation”, 51.

¹³⁶ Lawson, *View from No. 11*, 218, 222. Hoskyns and John Redwood attended a Policy Unit meeting in March 1981 which discussed the same issue (Hoskyns, *Just in Time*, 287). Redwood headed the Unit from 1983 to 1985.

¹³⁷ See both volumes of the official history (Parker, *Formative Years; Popular Capitalism*).

[INSERT TABLE 1 HERE]

The Chancellor of the Exchequer, Geoffrey Howe, argued in 1982 that maximization of sale proceeds should be the dominant consideration in privatizations, rather than ensuring “a wide spread of holdings”.¹³⁸ The Ferranti case contradicted this, and “special problems” led the government to accept lower disposal proceeds than could have been achieved by sale to a single industrial buyer. The direct placement of shares with institutional investors also differed from the disposal methods most commonly used in later privatizations, typically public share offerings, usually by fixed price offer, sometimes by tender.¹³⁹ However, the aims of maximizing proceeds and wide distribution were not necessarily in conflict. The size of the companies involved made aggressive public marketing campaigns and wide distribution inevitable in most of the later privatizations.¹⁴⁰ The two-year ownership “lock-in” at Ferranti reflected the desire to protect the company’s post-privatization independence. Later privatizations used alternative methods to address similar concerns, as Table 1 summarizes. These included the retention of minority interests until companies were established in the private sector, limits on the percentage of shares that any individual and/or foreign owners could hold, restrictions on the appointment of non-British directors, and the issue to the government of special preference, or “golden”, shares which conferred special rights, typically allowing the government to block changes of control or amendments to company constitutions as reflected in their articles of association.¹⁴¹ We found no evidence that the possible use of such methods was discussed in the Ferranti case.

¹³⁸ Parker, *Formative Years*, 157, 159.

¹³⁹ Veljanovski, *Selling the State*, 93–94. Parker (*Formative Years*; *Popular Capitalism*) addresses the detailed mechanics of individual privatizations.

¹⁴⁰ Although institutional investors were the dominant buyers, frustrating the more committed advocates of personal equity ownership (Edwards, “Manufacturing Capitalists”).

¹⁴¹ See Parker, *Formative Years*, 426–430; and *Popular Capitalism*, 346–347, 511–512. The origins of the “golden” share concept are not entirely clear. Lawson claims to have originated it and implies that it was first used in the Britoil privatization after

Notwithstanding Conservative rhetoric on the benefits of wider employee share ownership, the Ferranti disposal came too early to be representative of the Thatcherite ideological drive to a property-owning democracy which in part motivated later privatizations. Measures to encourage employee share ownership became a standard feature, partly to disarm union opposition.¹⁴² Incentives were almost invariably more generous than at Ferranti, where the two percent stake made available to employees was small, and employees were reluctant to back the company in this way, despite their appeals that the NEB should retain its stake and their commitment to the company's turnaround and belief in its prospects.¹⁴³ Similarly, none of Ferranti's directors increased their shareholdings after the disposal, and a management buy-out does not appear to have been contemplated during the sale process.¹⁴⁴

The desire to preserve competition and the capacity for innovation in defense procurement and uphold competition policy featured prominently in the arguments of ministers who supported wide dispersal of the NEB's stake in Ferranti. But the case

he became Secretary of State for Energy (Lawson, *View from No. 11*, 219). Parker (*Formative Years*, 137–138) locates its first use in the earlier Amersham International privatization in which Lawson was involved as Financial Secretary to the Treasury. But the initial sales of British Aerospace and Cable and Wireless, which preceded the Amersham International sale, both included “golden” shares.

¹⁴² Parker, *Formative Years*, 161.

¹⁴³ The NEB's remaining two percent holding yielded a £1 million profit in 1981 (NEB, *Annual Report*, 1981, 22). 18.4 percent of Ferranti employees took up only 62.7 percent of the shares reserved for them through a scheme which offered “one free stock unit for every one bought at the offer price of 500p” (Ferranti, *Annual Report*, 1981, 7, 27; quote from 7 and authors' calculation). In later privatizations participation rates ranged from 19 percent at Jaguar in 1984 (in which no employee inducements were offered) to 99 percent at Amersham International, Cable and Wireless and British Gas (Parker, *Formative Years*, 436, Table 16.7).

¹⁴⁴ At March 31, 1980 directors other than the Ferranti brothers held only 0.37 percent of the company's issued shares, and did not increase their holdings in later years (Billings, Tilba and Wilson, “To Invite Disappointment or Worse”, 461, Table 1).

did not raise the competition and regulatory issues which represented considerable obstacles in later privatizations of natural or regulated monopolies such as British Telecom, the rail industry, and the electricity, gas and water utilities.¹⁴⁵ These required new regulatory structures with industry-specific regulators established pre-privatization, an issue which the 1983 Conservative manifesto recognized.¹⁴⁶ The Ferranti case also represented a rejection of the “national champion” concept, the creation of a company with the scale and scope to dominate domestically and compete internationally, an argument GEC used to support its potential takeover of Ferranti. In this and other respects the Ferranti disposal shared another important feature much discussed in relation to later privatizations: the need to secure the support of incumbent management.¹⁴⁷

From a political perspective the Ferranti disposal could be seen as a defeat for privatization “evangelists” such as Joseph, Lawson, Butler, and Redwood. In some respects, the disposal should have been relatively straightforward, but pragmatic considerations forced compromises. On the other hand, if Ferranti, and other early privatizations, reflected the need for cash as much as a fully coherent agenda, the limited 1979 manifesto commitments were delivered to begin the privatization program. Many of the issues in the Ferranti case – balancing pricing against other considerations, competition, protecting the “national interest”, securing employee and management support, ensuring sufficient demand for the sale – would recur in later

¹⁴⁵ Much of the economics literature on privatization has focused on the relationship between ownership, competition and regulation (for example, Helm, “Economic Borders of the State”, Kay and Thompson, “Privatisation” and Vickers and Yarrow, “Economic Perspectives”). Lawson (*View from No. 11*, 239–240) argued that debates around competition could begin only after decisions to privatize had been made – until this point SOEs were not subject to financial disciplines which could deliver structural change.

¹⁴⁶ Dale, *Conservative Party Manifestos*, 291–292; Parker, *Formative Years*, 438–440; Veljanovski, *Selling the State*, 165–186.

¹⁴⁷ Veljanovski, *Selling the State*, 118–119. Chick (“Triumph of Past Practice”) argues that this factor had previously dominated relations between government and SOEs in Britain.

privatizations. The 1983 Conservative election manifesto referred to full or partial sales of a range of SOEs.¹⁴⁸ By then privatization was seen as a means of promoting wider share ownership as part of a “property- [or capital-] owning democracy”, emboldened by and extending beyond the success of the popular “right to buy” for tenants in municipal housing, and offering a means of funding cuts in personal taxation.¹⁴⁹

This paper addresses several issues which have recently re-entered British political debate over the relationship between the state and business. The 2013 part-disposal of the state-owned Royal Mail Group revived familiar controversies around the underpricing of privatized assets.¹⁵⁰ Actual and prospective sales of government holdings in Lloyds Banking Group and the Royal Bank of Scotland acquired through financial crisis “bail-outs”, and Lloyds’ disposal of part of its business in the form of TSB, have also contributed to a renewal of interest in privatization. Jeremy Corbyn’s 2015 election as Labour Party leader opened the possibility of renationalization of some privatized industries: energy and water utilities, the Royal Mail and railways.¹⁵¹ Discussions around the need to maintain a domestic steel industry provoked debate around the necessity and most effective means of undertaking state “bail-outs”.¹⁵² We expect future governments in Britain and elsewhere to face very similar problems to those which Ferranti, the NEB, and the privatization program more generally posed.

Acknowledgements

¹⁴⁸ Dale, *Conservative Party Manifestos*, 291–292.

¹⁴⁹ Davies, “Right to Buy”; Francis, “Crusade to Enfranchise”; Lawson, *View from No. 11*, 206–208, 224; Parker, *Formative Years*, 430–434; Stevens, “Evolution of Privatisation”. Offer (“The Market Turn”) addresses another aspect of “popular capitalism”: the liberalization of credit which created “a property windfall society”.

¹⁵⁰ Myners, *Independent Review*.

¹⁵¹ Labour Party, *For the Many Not the Few*, 19–20, 90.

¹⁵² <http://www.thisismoney.co.uk/money/news/article-4015042/Welsh-government-invest-8m-Port-Talbot-steel-works-owner-Tata-agrees-plan-unions.html>.

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Table 1 Features of major privatizations

Company	Initial sale		Term of special rights or “golden” share	Limits on		Restrictions on appointment of directors
	Percentage of shares sold	Date		individual holdings	aggregate foreign holdings	
Amersham International	100	February 1982	fixed period	15 percent		
Associated British Ports	51.5	February 1983				
British Aerospace	51.6	February 1981	no time limit		15 percent	
British Airways	100	February 1987		15 percent	25 percent	
British Gas	100	December 1986	no time limit	15 percent		
British Telecom	50.2	December 1984	no time limit, with right to appoint two directors	15 percent		chief executive to be UK citizen
Britoil	51	November 1982	no time limit	temporary majority to special rights share if voting rights held by one person exceed 25 percent		
Cable and Wireless	49	November 1981	no time limit	15 percent		chief executive to be UK citizen
Enterprise Oil	100	July 1984	fixed period	temporary majority to special rights share if voting rights held by one person exceed 50 percent		
Jaguar	100	April 1984	fixed period	15 percent		
Rolls-Royce	100	May 1987	no time limit in respect of voting on restrictions on foreign ownership	15 percent on holdings other than foreign holdings	15 percent	at least 75 percent of directors, including chairman and managing director, to be UK citizens

Source: Parker, *Formative Years*, 180–181, 200, 261, 428.

Note: this table includes only those companies sold by (tender or fixed price) public offer during the first ten years of the Conservative government.